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■ INSIDE PHILIP MORRIS • MAKING OVER MIDDLE MANAGERS • THE JAPAN ENIGMA ■

MAY 8, 1989

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ABOVE: A cleanup worker checks gunk trapped by a boom in Prince William Sound.

COVER: John S. Abbott photographed Chairman Lawrence Rawl at Exxon headquarters in New York City.

"We should come down very hard on the industry's laxness. But if we don't produce oil here, we'll produce it somewhere else and ship it to the U.S." PAGE 46

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The Alaskan oil spill is being compared to Bhopal and Chernobyl. Tragic as the loss of wildlife has been, it's not of that magnitude—not yet, at least. The environmental wounds in Prince William Sound will heal. If Valdez ultimately weakens the nation's determination to develop oil, then it will become a major disaster. *by Peter Nulty*

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That's what Exxon's chief executive says will be left of the spill. He hopes a "super job" of cleaning up will overcome Congress's new coolness toward exploration.

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When a large company tries to reform itself, the toughest and most important task is getting the bosses down the line to catch the vision. Few companies have done it well. Here are some tips on smoothing the process. *by Kenneth Labich*

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An era is ending. John Sculley wants to tone down the sassy California style. He wants more predictable, less dazzling products. Is he tampering too much? *by Brian O'Reilly*

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CAN FRED JOSEPH SAVE DREXEL? 89

If the embattled investment bank is to stay on top, its chief executive doesn't have much time. The junk bond market has jitters, the company's market share is slipping, clients are restless, and employees are unhappy. *by Monci Jo Williams*

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"We were going to be up to our butts in alligators right here."

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"We have to learn how to attack the problem and not the person."

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"I quit [smoking] for a month or so, every so often, just to show I can. It's not addictive."

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"Allan scared the hell out of people, and I'm thrilled."

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"We will open foreign markets with a crowbar where necessary, but with a handshake whenever possible."

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"It proved that I had a heart, which surprised a lot of people."

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EDITOR'S DESK

After the interview: Faltermayer, Rawl, and Taylor

OIL FUELS heated passions, particularly when shortages erupt or prices soar or accidents occur and endanger the environment. But it is important to look beneath the short-term passions and beyond the headlines to ask some questions that will have long-term consequences.

What will be the lasting effects of the spill from the *Exxon Valdez*, effects not only on the coastlines and the fauna of Alaska but also on the nation's quest for new supplies to replace ever-dwindling sources of domestic oil? What are the lessons that perhaps every business person can draw from the spill and its sorry aftermath? Those are the subjects we tackle in our cover stories beginning on page 46.

Writer Peter Nulty traveled the breadth of Alaska, from the port of Valdez to the snow-locked oil fields of Prudhoe Bay on the North Slope. He interviewed government officials, petroleum experts, fishermen, environmentalists, among others. Nulty, who in 13 years at FORTUNE has tracked oil stories to Vienna, Algiers, and almost every producing U.S. state, qualifies not only as an authority on the subject but also as an environmentalist. He is a member of the Nature Conservancy and a spare-time bird watcher. He was moved almost to tears by the helpless animals and the superhuman effort of volunteers as they painstakingly washed, dried, and fed medicines to oil-slogged sea otters and birds.

Yet he came back with a surprising report: "The Valdez spill was a very sad accident, and it will hurt a lot of people. But it hasn't taken a single human life. I don't see a great disaster in the making."

Most of the Alaskans whom Nulty interviewed considered the spill manageable, and—unlike many people in the lower 48—they did not view it as a reason to halt drilling in Alaska.

The larger problem for oilmen may involve politics and public relations. Exxon's seemingly slow response to the accident, and the Alyeska oil consortium's failure to meet past pledges that it could handle almost any contingency, inflamed emotions, notably in Congress.

In a remarkable interview with FORTUNE, Exxon CEO Lawrence Rawl candidly owned up to the mistakes he and his managers made. Senior editor Edmund Faltermayer, writer Alex Taylor III, and I questioned him for what was supposed to be 40 minutes; he kept talking for more than twice that long. Yes, he wanted to explain Exxon's side of the story: why he did not immediately act in the very visible way that Johnson & Johnson CEO James Burke had done when the Tylenol troubles broke or that former Union Carbide CEO Warren Anderson had done when the Bhopal tragedy struck; why he feels bureaucratic delays cost an opportunity for a quick cleanup; and what Exxon will do now. He also had some messages for other managers. Key among them: Be prepared well in advance with a plan to speak up if disaster strikes. I think you'll find many more fascinating insights in our interview with the man who runs the world's biggest private oil company.

Nulty on North Slope

This magazine is produced by a remarkably varied group of men and women: a lawyer from Nebraska, an MBA from South Dakota, an English scholar from Alabama, to name a few. None of them has contributed more to FORTUNE than Mary Johnston, a lady with a heart the size of Texas (she came from Austin) and a talent to match. Mary worked for Time Inc. for almost 40 years, 32 of them as FORTUNE's chief of reporters, until her retirement little more than a year ago. I regret to tell you that Mary Johnston died in March at 69 of emphysema.

Mary Johnston: a heart the size of Texas

Mary was not only the primary guardian of our accuracy, but also mentor, confidante, and friend to countless members of our staff. She was an unerring judge of character who plucked her own staff from disparate fields and molded them into journalists. She instilled in them a devotion to truth and fairness and accuracy that is a hallmark of FORTUNE's reporting and a major pillar of its reputation. Most of the reporters and writers at FORTUNE today, and many on the board of editors, were hired by Mary, so her imprimatur will endure in the years to come. We will grieve for the loss of her warmth, elegance, humor, and wisdom.

Marshall Loeb

MANAGING EDITOR

Procter & Gamble after the press and TV reported that the otters and ducks were being scrubbed with P&G's best-selling dishwashing detergent. But the company swears it won't take advantage of the *Valdez* disaster. Says John Bess, general manager for dishwashing products: "We don't want to exploit the situation." Neither will **Teledyne**. Rescuers are spraying ducks with Water Piks, its oral irrigators, to remove oil glued to their feathers.

The incident has brought out the best in corporate citizenship. After **Clorox** learned that its Formula 409 was being used to scrub oil off boats, the company offered to contribute cases of the cleanser. When officials at the makeshift rescue center said they needed films to train volunteers to wash the animals, P&G immediately dispatched experts and a camera crew to the scene. Cost: $50,000.

– **Frederick H. Katayama**

COLLECTING THE FUNNIES

■ What's up, Doc? Answer: cels, the celluloid building blocks of animated films. In the past year the value of the transparent rectangles on which animated characters are painted has soared. Last November a cel from a vintage **Walt Disney** Mickey Mouse film, *The Orphans' Benefit*, fetched $148,500 at a Christie's auction. In June the action turns to Sotheby's. One cel from Disney's Oscar-winning film, *Who Framed Roger Rabbit*, could bring in as much as $20,000.

Collectors will bid for Bambi.

Investors are invading the clubby turf of cel collectors and bidding up prices. Experts say values can only go higher because the shift to computer animation will make the hand-drawn cels an art of the past. The price of a cel depends on several factors: its condition and vintage, the scenery, the character's facial expression and cuteness. Disney works can attract six-figure bids, while characters from its rival **Warner Brothers** (Bugs Bunny and Yosemite Sam) command $6,000 at best. Why the disparity? *Snow White*, *Pinocchio*, and many other Disney films are full-length theatrical productions, which adds to their prestige, while Warner and **Hanna-Barbera** are better known for their shorts. Besides, Disney owns the undisputed superstar. Says Joshua Arfer, director of animation art at Christie's: "Bugs Bunny isn't as universally cherished as Mickey." Call it mouse appeal.

– **F.H.K.**

Pickens's foray into Japan shook the status quo on takeovers.

BOONE GOES HUNTING IN JAPAN

■ Is T. Boone Pickens trying to greenmail the richest company in the world? Notably inactive in the U.S. lately, the corporate raider chose an unlikely overseas target when he secretly bought 20% of an automobile parts manufacturer affiliated with **Toyota Motor Co.** The No. 1 Japanese automaker owns 19% of **Koito Manufacturing** and isn't likely to hand over those shares to Pickens or fork over part of its $13.5 billion cash hoard to buy Pickens's holdings at a higher price. In Japan, where companies are barred from buying their own stock, the standard greenmail scenario requires an ally to do the purchasing.

Pickens has said he is interested in Koito solely as an investment in a growing company, but some Japanese bankers are interpreting the Texas-based **Boone Co.**'s move as a battle cry. While Japanese companies have been snapping up U.S. enterprises, almost no action takes place in the opposite direction. One reason: Big chunks of Japanese corporations are held by friendly firms with no intention of trading.

Some Japanese see a fiendish American plot. "The Americans want to make this a political issue," says an M&A executive at one of Japan's leading securities firms. Officials at Boone Co. aren't unmindful of the policy implications. Says Sidney Tassin, the VP of finance: "I think the transaction will sharpen the focus on the lack of reciprocity in Japan."

"Acquisition" is still a dirty word in Japan, where compa-

MBAs FADE A BIT

■ So you heard the glory days were over for MBAs? Well, shed no tears. A survey by New York University's Leonard N. Stern school of business shows that last year's graduates of the nation's top business schools are taking home record salaries again—although increases are more modest than before the stock market crash. Grads in the class of '88 got offers 4.1% higher than the year before. – **J.L.**

1988 AVERAGE MBA STARTING SALARIES

STANFORD	$53,515
MIT	$53,244
HARVARD	$52,987*
DARTMOUTH	$51,000
PENN	$50,995
COLUMBIA	$49,478
NYU	$49,520
VIRGINIA	$48,334**
CHICAGO	$47,448
NORTHWESTERN	$47,383

*Estimate. **Includes bonuses.

THE ABC'S OF MARKETING TO KIDS

They know a lot about shampoo and tyrannosaurus claws. They want to be cool. And their $248 billion of buying power is not just pocket money.

■ *by Patricia Sellers*

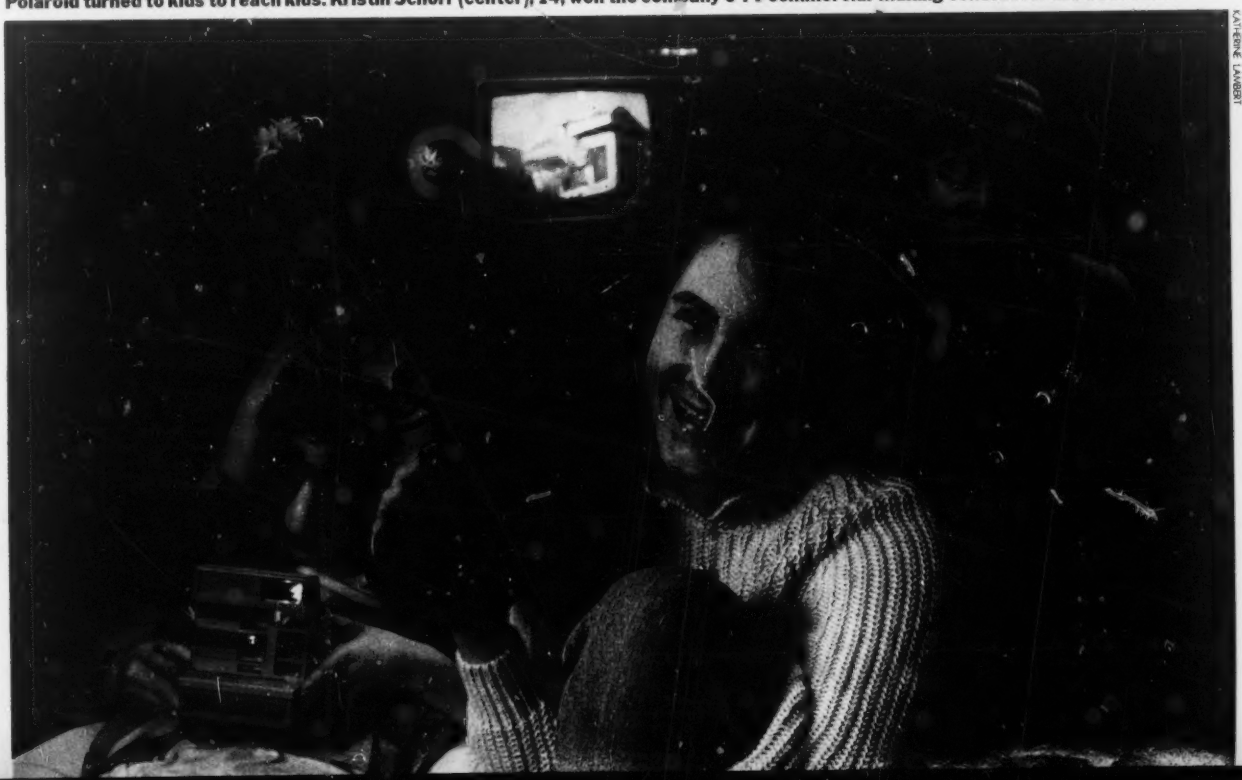
"YOU DON'T NEED that," says Kathy Buonincontri to her daughter, Monica, as they stand in the makeup section of the Shop Rite supermarket in Clark, New Jersey. "You just bought all that stuff at the mall. You don't need any more lipstick." Pretty, blond, and dressed to kill in miniskirt, denim jacket, and Reebok sneakers, 12-year-old Monica insists that the one item she *must* have is a bottle of Maybelline primer to coat her fingernails before she paints them with light pearly-pink polish. "Are you going to buy that?" asks the mother. "No, you are," Monica proclaims. Mom gives in, of course, then asks, "Well, can I borrow it?"

Like many mothers today, Buonincontri, 40, will buy her daughter and 8-year-old son just about whatever they want. "Anything in moderation," she says. That gets expensive because the kids, tuned in to the media and aware of the latest trends, demand a lot. Monica uses her own shampoo, Revlon's Clean & Clear, because, she says, ads in *Teen* magazine show how it gives hair bounce and body. "It made my friend's hair bouncy too," she says. And she insists that the Buonincontris eat Stouffer's French Bread Pizza, not the Shop Rite brand that Mom suggests buying. Says Monica: "Any store-brand thing is gross."

The most sophisticated U.S. marketers are acknowledging the clout of kids like Monica—28 million incredibly conspicuous consumers age 12 to 19. According to Lester Rand, a New York consultant who has been observing the trends in teenage wealth for nearly four decades, the typical adolescent spent $2,331 last year, more than twice as much as ten years earlier (see chart). As a result, even though the teenage population has been declining for more than ten years, total spending of this group has risen from around $32.2 billion in 1978 to some $55 billion last year, an amount that approximates the gross national product of Turkey.

The total impact of teenagers on the U.S. economy is much larger, however: $248.7 billion by Rand's reckoning. In addition to

Polaroid turned to kids to reach kids. Kristin Schorr (center), 14, won the company's TV commercial-making contest for the Cool Cam.



KATHERINE LAMBERT

the $55 billion that came from kids' allowances and after-tax earnings and $11.2 billion that they saved for future purchases, there's another $33.5 billion that busy moms and dads gave their offspring for family grocery shopping last year. Rand calculates that the youngsters also "influenced" almost $150 billion in family purchases of such products as stereos, breakfast cereals, and, as in the Buonincontri household, frozen pizza. This amount is likely to increase rapidly when the teen population starts growing again in 1992.

The spending power of even younger consumers is radical too—to borrow a bit of kidspeak. For you dweebs, "radical" means great or wonderful. The number of children under 12, currently 42 million, will keep growing through at least 1995, and money burns holes in their pockets. James McNeal, a marketing professor at Texas A&M University, estimates that 4- to 12-year-olds used $6.2 billion of their own money last year, up from $4.2 billion in 1984, to buy items such as snacks, candy, and toys.

Says Selina Guber, president of Children's Market Research in New York: "Parents are busier and feeling guiltier. So they are softer when it comes to children's requests." The kids are no dummies at exploiting these emotions. One 11-year-old girl told Guber, "I don't ask my parents for something when they're together because if one says no, they'll both say no. I ask my dad first. If he says yes, then he helps me convince my mother."

FOOD COMPANIES are particularly intrigued by the youth market. It turns out that junior is juggling supermarket shopping with schoolwork because some 70% of mothers of children age 17 and under work outside the home. Rand found that 80% of teenagers he interviewed last year said they were "heavily involved" in family food shopping, compared with 63% in 1978. But marketers' interest in kids extends beyond supermarket aisles. Polaroid's new camera, the Cool Cam, is designed for "tweens," boys and girls between 9 and 14, and Delta Air Lines recently created a Delta Fantastic Flyers Program for customers 2 through 12. AT&T is trying to figure out how much kids know about long-distance services, to see if it should reach out and touch them directly in ads and promotions.

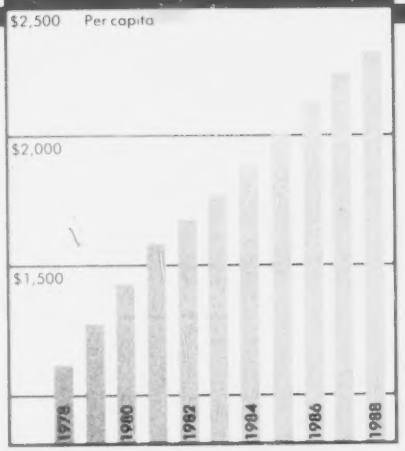
Says Herbert M. Baum, the president of Campbell USA: "There hasn't been enough done in the kids' market. Now it's a niche that everyone is attacking." Even the financial services industry is looking for its share of pocket. Neale Godfrey, former president of New York's First Women's Bank, is setting up Children's Financial Network to help banks design and market checking accounts and CDs for financiers up to age 21. "Children are intrigued by money," she says. They are also becoming smarter money managers. Texas A&M's McNeal found that kids age 4 to 12 saved about $2.6 billion in 1988—30% of their earnings and allowance money—while in 1984 the same age group saved $500 million, only 11% of their income.

THE KIDS' MARKET is attractive because the money is there, and because corralling a young consumer and keeping him loyal sets a course for predictable sales growth. Says Philip Fletcher, president and chief operating officer of ConAgra Prepared Food Cos., which is testing Banquet Kid Cuisine microwaveable meals: "The appeal isn't simply satisfying kids' needs now but also developing them as users of our products so that they'll buy as adults." A recent study of 40,000 college students by New York–based Decisions Center Inc. and MarketSource of Cranbury, New Jersey, revealed that 62%—and 56% of seniors—buy the same brand of toothpaste they used during high school.

Moreover, some of the traditional reserve that once kept many marketers from targeting kids is loosening, however noisily. Whittle Communications (which is 50%-owned by the Time Inc. Magazine Co., the publisher of FORTUNE) hopes to roll out its new *Channel One*, a 12-minute daily news program for teens, into 8,000 schools beginning next fall. The TV shows include commercials for products such as Head & Shoulders shampoo and Gillette razors.

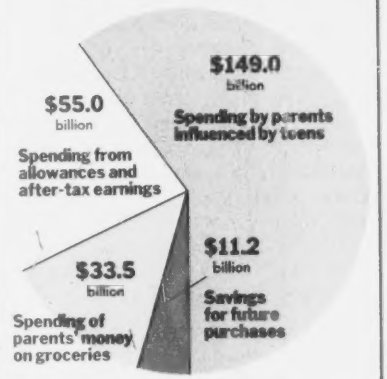
Christopher Whittle, the CEO of Whittle Communications, points out that kids are already exposed to 100 minutes of ads a day and he is adding only two minutes more. But the American Federation of Teachers argues that Whittle provides a captive, impressionable audience for advertisers, and Action for Children's Television has called for "Whittle-free zones" in which schools would refuse to broadcast *Channel One*. Child psychologist Dr. Lee Salk opposes *Channel One* but notes that there is increasing tolerance for marketing to children. "Kids are entitled to an educa-

ANNUAL TEEN SPENDING



TEEN IMPACT ON THE U.S. ECONOMY

1988 TOTAL: $248.7 billion



KID POWER OVER FAMILY PURCHASES

Ages 6–17

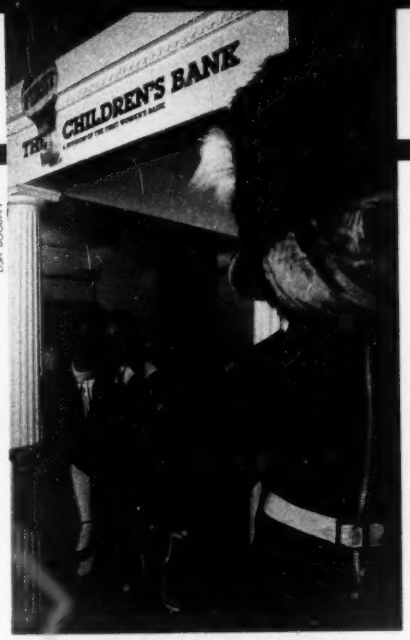
	Parents saying they were influenced by child	Children reporting influence over parent
Breakfast cereal	78%	60%
Clothing	72%	83%
Toys	68%	48%
Ice cream	58%	54%
Soft drinks	56%	58%
Video movies	48%	53%
Toothpaste	44%	26%
Personal computers	10%	9%
Automobile	8%	18%

REPORTER ASSOCIATE *Joan Vichiano*

tion without having to be the object of commercial promotion," he says. "But this is a free-enterprise system, and selling to kids comes with the territory."

Seven-Up, whose sales had gone flat among youngsters, early last year broke the soft drink industry's tradition of not advertising directly to children on Saturday-morning and after-school TV. In its commercial the little red dot on the soda can comes alive as a furry, mischievous creature wreaking havoc on grownups. Seven-Up has received only one complaint. Meanwhile, kids guzzled 20% more of the soda last year than in 1987.

Marketing to children can be treacherous, however. They are tough customers for adults to understand. Last year, for example, in a survey of 1,200 youths age 6 to 17, interviewers asked, "Do you wish your family were bigger?" Some kids replied: No, my family is plenty tall. The researchers reworded the question. Ann Clurman, senior vice president at Yankelovich Clancy Shulman, says that she frequently asks her clients, which include many large consumer-products companies, to guess what kids say they worry about a lot. She tells them to rank three choices—death of a parent, nuclear war, a bad report card—"and close to 90% get it wrong," she says. The marketers rank nuclear war first. Kids say a bad report card is a lot scarier.



LISA BOGGAN

Neale Godfrey opened a bank at F.A.O. Schwarz for kids like her daughter Kyle, 6.

American Home Products learned in an embarrassing fashion last year that children are smarter than it realized. About 20 tykes complained after the company introduced Chef Boyardee's Dinosaurs Pasta with a label that identified a reptile with three claws on each arm as a tyrannosaurus. Alas, the beast was an allosaurus—a tyrannosaurus's arm has only two claws. American Home amputated the extra digit and sent apology letters and coupons to the young objectors.

Like adults, kids don't respond to marketers who talk down to them. Marvin Schoenwald, president of Manhattan-based M/E Marketing & Research, tells clients to populate their commercials with children who are about two years older than the ones they are trying to reach. "Anything babyish is the kiss of death," he says. The sure-fire way to capture young customers is to create a "cool" image for your product. Says Carol Hill, an account supervisor at Leo Burnett, the Chicago-based ad agency: "Kids run their lives by wanting to be cool. Cool means being confident, respected, and always knowing the right thing to say."

TO ENDOW their products with the requisite coolness, marketers are beginning to employ some precocious consultants. Take Polaroid, for example. The company's first product for children, the $69 Cool Cam instant camera, was introduced in February 1988 and had sales last year of about $15 million, some 30% higher than Polaroid expected. The reason for the camera's success? Says Kathy D. McCoy, the marketing manager: "We let the kids design their own camera." Polaroid tried out different colors and names on more than 600 young shutterbugs, and the kids selected the camera's two color schemes—pink-and-grey and red-and-black. The youngsters told Polaroid to package sunglasses with the camera for an even cooler look.

The kids also had their say in the advertising. Polaroid held a commercial-making contest for children in ten cities last year and televised the winning spots in each local market. Kids' recall of the homemade commercials—how well they understand and remember the message that the company wants to deliver—far exceeded most adults' recall of TV ads. Says McCoy: "Kids understand kids. They were drawing the right inferences because a kid was communicating." The grand-prize winner, the creation of 14-year-old Kristin Schorr of Manassas, Virginia, will air nationwide on cable TV beginning later this year. Called "Fish," it is a distorted view from inside a fishbowl of two geeky-looking kids. One fish gurgles disdainfully to another, "The only thing cool about these nerds is that they have a Cool Cam."

Carol Hill of Leo Burnett helped H.J. Heinz make its ketchup ads cool after Heinz discovered that children 17 and younger eat one-third more ketchup than adults do and that kids often choose the family brand. In one current commercial, a dark-haired, self-confident high-schooler impresses a pretty girl when he sets a Heinz ketchup bottle on

STEVE LEONARD

Mary Anne Jackson dishes up My Own Meals to her own children, Katie, 4, and Joey, 2.

Heinz's red-hot stock car makes ketchup look cool to youngsters in Jonesville, Georgia.

its side on the edge of a rooftop, then bounds down several flights of stairs, buys a hot dog from a street vendor, and holds out his frank to catch the first descending drop of sauce. To make ketchup even cooler, the company is sponsoring a fiery red-and-white Heinz Ketchup Pontiac that competes this year in 30 Winston Cup stock-car races.

The pitch is paying off. Says Jeffrey Conner, Heinz's product manager for grocery ketchup: "Our research shows that kids like the commercials because they aspire to be teenagers, and adults like them because they bring back memories of their youth." Now more hot dogs are doused with ketchup—37% of all wieners eaten last summer, vs. only 30% two summers before—and more burgers are being smeared with it too. As a result, Heinz's $250 million U.S. ketchup business grew about 2% in volume in 1988 after five flat years.

Kids don't want to admit they eat soup. Why? Only nerdy Pee-wee Herman types slurp the stuff.

Hot soup can be cool too. Campbell interviewed groups of elementary school children and found that the youngsters like soup but were embarrassed to admit that they eat it. Why? Turns out kids think only Pee-wee Herman types slurp soup. Youngsters regard the bizarre, campy TV star who wears rouge and red lipstick as funny but nerdy. Boys and girls both admire athletes, however, so the company presented the Campbell Kids—the tubby tykes who have symbolized the soups since 1904—as slimmed-down, shapely sports figures on the labels of the cans. A gymnast is on Curly Noodle soup, a weight lifter on Meatball Alphabet. With the help of ads directed at kids instead of moms, Campbell last year bench-pressed its estimated $300 million children's soup line 6% after four years of no growth.

In their discovery of kid power, marketers have to be wary of overlooking Mom altogether. She may work in an office, but she still reigns in most households. Procter & Gamble learned this lesson trying to build sales of Crest for Kids, a sparkle-filled, bubble gum–flavored version of Crest gel that was introduced in late 1987. The kids-only toothpaste market has grown more slowly than expected because research shows that Mom is not keen on buying a second tube of toothpaste just for junior if it doesn't clean his teeth better than the adult stuff does. Colgate-Palmolive is using these findings to introduce its own kids' toothpaste, Colgate Junior. Formulated to appeal to parents, Colgate Junior is less abrasive and foamy than adult Colgate, and the tube's star-shaped opening discourages kids from squeezing out gigantic globs.

Mary Anne Jackson aims her microwaveable entrees for kids, My Own Meals, directly at mother. The former strategic planner at Beatrice Co. couldn't find nutritious, additive-free dinners for her daughter, Katie, 4, so she created her own after sending surveys to 2,000 mothers via her diaper service. The surveys showed that other moms also wanted easy-to-prepare foods without artificial ingredients or preservatives for their kids, and Jackson, 35, complied, with offerings such as My Favorite Pasta, a mixture of lentils, barley, and ground pork. Her TV commercial works on Mom's guilt about not being there to cook her kids' meals: "As a busy mother like you, I worry about my children eating right," she tells viewers. Having beat such competitors as ConAgra and Hormel to the market, My Own Meals expects sales of $2.6 million this year.

AN EVEN MORE alluring and difficult opportunity awaits American companies when they try to reach kids abroad. Children age 5 to 14 comprise 13.6% of the European population, and they are spending a growing percentage of Mom's and Dad's disposable incomes. European countries restrict marketers' ability to interview children, however, and only about 15% of the kids age 6 to 17 have their own TVs, vs. 40% in the U.S. Texas A&M's McNeal says European parents shudder at the thought of their kids as wanton consumers. "They have a Fifties attitude about children. U.S. parents give kids freedom to spend their own money two to three years earlier."

But teens are a different story, thanks to the universal language of music videos. Says Tom Freston, president of MTV Networks, the cable programmer for young people: "Youth culture in just about every nation revolves around music, fashion, and humor. Kids are not the same all over the world, but they resemble each other closely, more than any other generation in history." MTV broadcasts its English-language programming in 25 countries, permitting marketers like Pepsi-Cola and Coca-Cola to show the same high-decibel ads to viewers everywhere.

Throughout the world, children are changing fast from kids to consumers. Savvy marketers are both capitalizing on the trend and speeding it along. F